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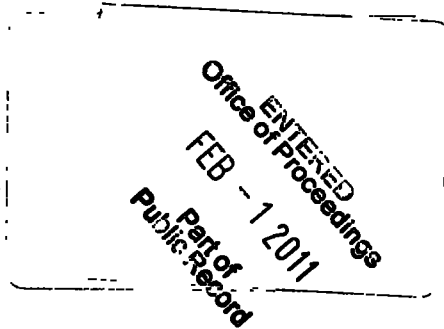
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January 31, 2011

BY HAND

Ms. Cynthia T. Brown
Chief, Section of Administration
Office of Proceedings
Surface Transportation Board
395 E Street, SW
Washington, DC 20423



Re: Union Pacific's Notice of Intent to Participate and Written Testimony in STB Ex Parte No. 704

Dear Ms. Brown:

On behalf of Union Pacific Railroad Company, I am submitting Union Pacific's notice of intent to participate and written testimony for the hearing to be held on February 24, 2011 in STB Ex Parte No. 704. Union Pacific's testimony will be presented by Eric Butler, Union Pacific's Vice President & General Manager - Industrial Products. Union Pacific requests that the Board allow ten minutes for Mr. Butler's presentation, which will primarily address the company's experience in the marketplace with the commodity, boxcar, and intermodal exemptions.

We have enclosed an original and ten copies of Union Pacific's written testimony with this notice of intent to participate.

Please contact the undersigned if you have any questions.

Sincerely,

A handwritten signature in dark ink, appearing to read "Michael L. Rosenthal".

Michael L. Rosenthal

Enclosures

228723

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 704



REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS

WRITTEN TESTIMONY OF
UNION PACIFIC RAILROAD COMPANY

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*Attorneys for Union Pacific
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Date of Submission: January 31, 2011
Date of Public Hearing: February 24, 2011

BEFORE THE
SURFACE TRANSPORTATION BOARD

Ex Parte No. 704

REVIEW OF COMMODITY, BOXCAR, AND TOFC/COFC EXEMPTIONS



WRITTEN TESTIMONY OF
UNION PACIFIC RAILROAD COMPANY

Union Pacific Railroad Company respectfully submits this written testimony in response to the Board's Notice served October 21, 2010.¹ We are providing this testimony to describe our experience in the marketplace with the commodity, boxcar, and intermodal exemptions and explain why they should not be revisited or subject to periodic review. Union Pacific's written testimony includes the attached verified statements of three marketing officers: Eric Butler, Vice President & General Manager - Industrial Products; John Kaiser, Vice President & General Manager - Intermodal; and Julie Krehbiel, Vice President & General Manager - Automotive.²

I. INTRODUCTION

In the Staggers Act, Congress concluded that the nation's interest in a sound rail transportation network is best served by minimizing government regulation and maximizing reliance on market forces. Congress reinforced and strengthened that policy decision in the Interstate Commerce Commission Termination Act. In both statutes, Congress instructed this agency to advance its deregulatory objective by pursuing exemptions aggressively.

¹ The Board served a corrected Notice on October 25, 2010.

² Union Pacific also joins in the comments of the Association of American Railroads.

Union Pacific believes that Congress chose the right direction: America's freight rail system is now stronger and more competitive than ever before, which benefits not only railroads, but also shippers and the nation as a whole. As the Association of American Railroads explains more fully in its comments, the Board has no basis for revisiting the policy judgment that produced the commodity, boxcar, and intermodal exemptions. And, even if the Board could ignore congressional policy favoring exemptions, deregulation's success should be a reason to stay the course, not a reason to shift into reverse: railroads will need the same freedom and flexibility to respond to market forces as other modes if we are going to help meet the challenges our nation faces from the growing pressures on our transportation infrastructure.

As we explain in the remainder of our comments, Union Pacific believes that there is no reason for the Board to revisit the factual underpinnings of the commodity, boxcar, or intermodal exemptions. The Interstate Commerce Commission and the Board correctly identified traffic for which regulation is not necessary to protect shippers from abuse of market power. The Commission and the Board exempted the traffic at issue after careful analysis showed it was subject to effective competition. Our experience demonstrates that exempt commodities and services remain subject to pervasive competition and that shippers are benefiting from this competition. In the accompanying verified statements, Union Pacific marketing officers describe the company's experience in the marketplace with exempt traffic. Their evidence demonstrates that competition not only has continued to protect shippers from abuse of market power, but also has spurred Union Pacific to make substantial investments in improving our facilities, processes, and services to capture and retain their business. We summarize the evidence next in Part II.

II. THE MARKETPLACE FOR EXEMPT TRAFFIC REMAINS HIGHLY COMPETITIVE.

The Commission and the Board adopted the commodity, boxcar, and intermodal exemptions based on findings that “there is a sufficiently competitive market for the transportation involved that regulatory protections are not needed.”³ The pervasive competition that we and other railroads faced at the time the agency adopted each of the exemptions at issue—competition from trucks, other railroads, and other modes, as well as product and geographic competition—continues to exist today and precludes us from exercising market power over exempt traffic.

Indeed, Union Pacific has difficulty understanding why the Board might believe that competition has diminished, which raises concerns that the agency is focused on other issues, and thus drifting away from the mooring established by Congress. Although we are well aware that shippers have complained about rate increases over the past several years, the extensive study that the Board recently commissioned on competition in the freight railroad industry concluded that the “increase in rail rates in recent years appears to be the result of increasing cost and does not appear to reflect an increase in the exercise of market power.”⁴ In fact, by one measure the study used to measure railroad market power from 1987 through 2008, market power has declined steadily since 1993 and was at the lowest level ever in 2008.⁵

We are also aware of claims that rail mergers have reduced competition, but the Board knows that those claims are incorrect. The Commission and the Board carefully reviewed each

³ *Rail Fuel Surcharges*, STB Ex Parte No. 661 (STB served Jan. 26, 2007) at 13.

⁴ Laurits R. Christensen Associates, Inc., *An Update to the Study of Competition in the U.S. Freight Railroad Industry – Final Report*, at 4-7 (Jan. 2010).

⁵ *See id.* at 4-6, Figure 4–5.

proposed merger and imposed conditions when necessary to ensure that no shipper would lose the benefit of rail-to-rail competition. In fact, railroad mergers have enhanced competition by creating shorter routes, more single-line service, faster schedules, better service reliability, lower costs, and a wide range of other efficiencies. Some recent mergers have also created entirely new rail-to-rail competition. For example, the UP/SP merger created new rail-to-rail competition in the Seattle-Los Angeles “I-5 Corridor” through a settlement that gave BNSF Railway a single-line route that it could use to compete with the merged UP/SP.⁶ The Commission and the Board repeatedly acknowledged these pro-competitive aspects of past rail mergers in their decisions approving the transactions as consistent with the public interest and in oversight decisions reviewing the actual effects of the mergers.⁷ And, the pro-competitive benefits have also been validated in independent studies.⁸

The sections below discuss the competitive nature of the marketplace for exempt traffic in more detail, drawing on our experience as described in the accompanying verified statements. Union Pacific is particularly concerned by the Board’s decision to address categories of traffic that are unquestionably subject to vigorous and effective competition, especially intermodal traffic and automotive traffic. We address our experience with intermodal traffic in section A,

⁶ See *Union Pacific Corp. – Control & Merger – Southern Pacific Rail Corp.*, 1 S.T.B. 233, 565 (1996).

⁷ See, e.g., *CSX Corp. & CSX Transp., Inc., Norfolk Southern Corp. & Norfolk Southern Ry. – Control & Operating Leases/Agreements – Conrail Inc. & Consolidated Rail Corp.*, 3 S.T.B. 196, 333-38 (1998); *Union Pacific Corp. – Control & Merger – Southern Pacific Rail Corp.*, 1 S.T.B. at 375-84, 564-69; *Burlington Northern et al. – Merger – Santa Fe Pacific et al.*, 10 I.C.C.2d 661, 733-38, 740-42 (1995); *Union Pacific Corp. – Control & Merger – Southern Pacific Rail Corp.*, STB Finance Docket No. 32760 (Sub-No. 21), Decision No. 21 (STB served Dec. 20, 2001) at 3-4.

⁸ See, e.g., Denis A. Breen, *The Union Pacific/Southern Pacific Rail Merger: A Retrospective on Merger Benefits*, Review of Network Economics, Sept. 2004, at 283.

and in the accompanying verified statement of Mr. Kaiser. We address our experience with automotive traffic in Section B, and in the accompanying verified statement of Ms. Krehbiel. Finally, we address our experience with a variety of other categories of exempt traffic in Section C, and in the accompanying verified statement of Mr. Butler.

A. Intermodal Traffic Is Subject To Effective Competition.

The Board's suggestion that the exemption for intermodal traffic might be ripe for review is simply astonishing. Intermodal traffic is the most competitive category of traffic that moves by rail. There is pervasive, head-to-head competition among railroads for international intermodal traffic—that is, containerized goods from overseas. Ocean carriers can choose among competing railroads at U.S. ports, and they can expand their competitive options even further by choosing among the various ports on the west and east coasts, including ports in Canada and Mexico. *See Kaiser V.S.* at 5-6. Union Pacific also competes with truck for international intermodal traffic. Ocean carriers routinely use trucks to move containers from ports to inland points—trucks are predominantly used for containers traveling as far as 1,000 miles from a port. *See id.* at 7-8. Ocean carriers can also use trucks to move containers to local warehouses, from which goods are later moved by truck to their final destination as domestic freight. *See id.* at 8.

Union Pacific also competes vigorously for domestic intermodal business, both with other railroads and with trucks. Virtually all domestic intermodal traffic that moves by rail is subject to rail competition because railroads do not need to serve a particular shipper facility, or even have rail facilities in the same city, to compete for this business. *See id.* at 9-10. However, in almost every situation, our most significant competitor is not another railroad—it is a truck. Even with all the progress railroads have made and are continuing to make in attracting this traffic to rail, trucks still dominate the business and provide effective competition to shippers of domestic intermodal freight. We estimate that trucks transport approximately 80% of the

domestic intermodal traffic that we could potentially handle—that is, traffic that originates and terminates near enough to one of our intermodal ramps to make rail service an option. BNSF Railway (“BNSF”) transports about 10% of this traffic, and we move the remaining 10%. *See id.* at 10. Even for the Los Angeles to Chicago lane, where Union Pacific and BNSF together move approximately 40% of “single driver truck” segment of the domestic business, trucks still move about 60% of the traffic. *See id.* Trucks are an even more dominant presence in the less-than-truckload and parcel segment of the domestic business, where carriers such as YRC Worldwide, AB Freight, and UPS typically use a relay system of drivers so their trucks can move continuously. *See id.* at 11. To sell our services in this market, we must be able to average 800 to 1,000 miles per day, which presents significant operational challenges and has limited the number of lanes in which we can offer service. *See id.*

This competitive environment forces us to continuously invest in our intermodal infrastructure and find ways to improve our service. In the last five years, Union Pacific invested \$1.4 billion in increasing its “line of road” capacity in corridors that serve the intermodal market. *See id.* at 12. In particular, we completed double-tracking the Sunset Route between El Paso and Tucson and resumed extending the double-track segments between Tucson and Los Angeles. *See id.* We also invested heavily in new terminal capacity, including a new, \$370 million intermodal terminal at Joliet, Illinois, a new terminal in Dallas, and new ramps in San Antonio, Salt Lake City, and Tacoma. *See id.* at 6, 12.

The Board surely understands the basic facts regarding competition for intermodal traffic. It has previously rejected petitions for partial revocation of the intermodal exemption,

most recently in 2006, explaining that “competitive options were readily available.”⁹ The Board has further explained that “[u]nder the exemption, trucks and railroads compete on an equal footing for intermodal traffic, . . . with each competitor capable of adapting readily to changes in the marketplace.”¹⁰ And, the Board has recognized the potential for harm in revoking even partially the exemption for intermodal traffic:

If we revoke the exemption, even partially, the railroads would be restricted in how they can respond to changes, while trucking companies would not. This kind of imbalance could have unintended consequences and upset the competitive balance between railroads and trucks.¹¹

There is no sense in raising the prospect of re-regulation against this background. For many years now, Union Pacific and other railroads have been committing resources to expand and improve their intermodal services based in no small part on the understanding that regulatory action would not negate the benefits of their commitments. Especially at a time when the government should be encouraging railroads to invest private funds in making their intermodal service even more competitive with truck to help move traffic off the highways, it is counterproductive for the Board to call that understanding into question.

⁹ *WTL Rail Corp. – Petition for Declaratory Order and Interim Relief*, STB Docket No. 42092 & *WTL Rail Corp. – Petition for Partial Revocation of Exemption*, STB Ex Parte No. 230 (Sub-No. 9) (STB served Feb. 17, 2006) at 6; *see also id.* at 2 (“Shippers can truck their freight to any railroad intermodal ramp, or move it entirely over the highways, enabling them to choose the most effective and commercially responsive service and price offerings.”).

¹⁰ *Rail Fuel Surcharges*, STB Ex Parte No. 661 (STB served Jan. 26, 2007) at 13.

¹¹ *Id.*

B. Automotive Traffic Is Subject To Effective Competition.

The Board's Notice also unnecessarily calls into question exemptions that apply to movements of automotive traffic, which includes both finished vehicles and automotive parts. Like intermodal traffic, automotive traffic is subject to pervasive rail and truck competition.

Union Pacific and BNSF compete head-to-head in bidding for every major movement of finished vehicles in the western two-thirds of the United States. *See Krehbiel V.S.* at 3. Both railroads have comparable access to West Coast ports, where finished vehicles arrive from overseas, and to most North American auto manufacturers. *See id.* Both railroads can then move those vehicles to destinations throughout the West, using their networks of auto ramps, or to connections with eastern railroads. *See id.* Kansas City Southern Railway ("KCS") is also a strong competitor for movements of finished vehicles from auto plants in Mexico. *See id.* at 3, 4. As with the intermodal business, railroads compete without serving the same destination facility, or even nearby facilities, because finished vehicles ultimately move to dealer lots by truck. We compete not only with respect to rates, but also by investing in new unloading terminals and new autorack cars and improving service speed and reliability. *See id.* at 3-4.

Union Pacific also competes with trucks for movements of finished vehicles, which requires us to provide advantages that overcome the additional costs and risk of damage involved in de-ramping vehicles from trains and loading them onto trucks for final delivery. *See id.* at 5. This competition can be seen not only in rates, but also in our investments in distribution facilities, improving service reliability, and developing equipment and processes that minimize the risk of damage to vehicles during transportation. *See id.* at 6, 8-12. Recently, we became the first railroad to fight for a share of the used car market. Our ShipCarsNow program offers transportation services for used cars—a market that had been 100% truck. *See id.* at 12.

Union Pacific also faces pervasive competition for automotive parts movements, both head-to-head competition and competition from trucks. We compete vigorously with BNSF for movements of auto parts. *See id.* at 4. We also face fierce competition from Kansas City Southern Railway, particularly from the Upper Midwest to Mexico, which is one of the most significant lanes for parts traffic. *See id.* However, trucks continue to dominate the business, transporting approximately 85% of automotive parts. *See id.* at 6. When automotive parts move by rail, they move in boxcar service or intermodal service—which are, by definition, truck-competitive services. Moreover, the parts business is extremely service sensitive, and trucks are generally perceived as having both speed and reliability advantages over rail. *See id.* The inroads we have made in this business result from investments in providing premium service and attractive rates. *See id.*

To compete in this highly competitive environment for movements of finished vehicles and automotive parts, Union Pacific has invested approximately \$688 million over the past twelve years, including \$65 million to acquire and improve a facility in Fremont, California, and \$7 million in improvements to other facilities last year alone. *See id.* at 8. This also includes approximately \$33 million per year in spending to improve and expand our autorack and box car fleets. *See id.* at 9. We have been a leader in designing new equipment to serve the automotive business, including a new AutoFlex car that will allow users to convert autoracks from a trilevel to a bilevel, and back again, depending on the size of the automobiles being transported. *See id.* We have also developed new programs and processes to tailor our services to the automobile industry's needs, including our VINFormation tracking system and LogicNet routing software. *See id.* at 10-11. This is not the behavior one sees in the absence of competition.

In short, the automotive business is another area in which the threat of a return to a regulated environment is misguided and counterproductive. We compete for this business against other railroads and against truck by making investments and developing innovations required to provide premium services that automotive shippers demand—services that could not be mandated by regulation. The Board should be encouraging railroads to make these market-driven investments, not raising the prospect of interfering in this highly competitive market.

C. Other Exempt Traffic Is Subject To Effective Competition.

Union Pacific's experience with other exempt commodities parallels our experience with intermodal and automotive traffic—that is, we face pervasive competition from other railroads, trucks, and other modes, as well as product and geographic competition.

We have not tried to address all the other exempt commodities in detail because it would be impractical, but we discuss several of the largest categories of exempt traffic in the accompanying verified statement of Eric Butler; namely, lumber and wood products; paper products; steel and scrap; and crushed stone, sand, and gravel.

As Mr. Butler explains, Union Pacific faces intense competition for all of these products from trucks. Trucks typically offer shippers advantages in terms of cycle time and speed that railroads cannot match. Shippers often can use trucks to get their product to market the day after receiving an order—generally in less time than it would take us to position an empty car for loading at a shipper's facility. *See Butler V.S. at 5.* Also, these products often move in smaller quantities to a variety of destinations, which can make trucks more economical than rail. For example, mini-mills frequently produce small batches of specialty steel that are better suited to the economics of truck transportation. *See id. at 12.* Many of these products also move to or from locations that are not directly served by rail, so they must be loaded on trucks for at least some portion of the move. For example, movements of steel pipe for used for pipeline

construction, and movements of aggregates used for road construction, must be trucked because the construction site keeps moving, and you can only get so close by rail. *See id.* at 14, 16. Union Pacific can and does compete for this business, but the additional time and cost associated with transporting the products by rail means that trucks remain competitive with rail even for longer distance moves, where railroads are often thought to have a cost advantage.

Where Union Pacific has advantages over trucks, we face competition from other railroads—primarily, BNSF. For example, BNSF also has access to a substantial number of the rail-served lumber and wood products shippers in the Pacific Northwest. *See id.* at 5-6. Even customers that we serve exclusively could transload their products to BNSF if we do not offer competitive rates, because the costs of transloading are low in relation to the delivered cost of a carload of lumber or wood products. *See id.* at 6. BNSF also has similarly competitive access to paper traffic. *See id.* at 9. Union Pacific and BNSF also compete head-to-head for steel business. A substantial amount of the steel we handle originates in the Great Lakes region on carriers that connect with us and BNSF, and because most steel products that we transport must be transloaded at their final destination, neither railroad needs direct access to a shipper facility to compete for the business. *See id.* at 13-14.

Finally, product and geographic competition plays an important role in constraining the rates that we can charge shippers of exempt commodities. For example, lumber and wood products can be sourced from the Pacific Northwest, the Southeast, and Eastern Canada. *See id.* at 4-5. As a result, the rates we can charge to move these products from the Pacific Northwest to the Midwest or the East are constrained not only by BNSF access to lumber and wood sources in the Pacific Northwest, but also by other railroads and trucks that can serve sources of lumber and wood products in the Southeast and Eastern Canada. *See id.* at 6-7. Similarly, when setting rates

for steel moving from the Great Lakes region to the West, we must be mindful of competition provided by imported steel from China, South Korea, Japan, and Europe that flows into West Coast and Gulf ports and moves to its ultimate destination on trucks. *See id.* at 16. As still another example, when we move aggregates for road construction projects in the Houston area, we must compete against BNSF and trucks, which can originate aggregates at different quarries. *See id.* at 16-18.

Union Pacific's experience in the marketplace with other exempt commodities is the same: the traffic is subject to pervasive competition from trucks and other railroads, and receivers often have the option of sourcing the products from other origins. *See id.* at 1-2. To win and retain this traffic, we must provide quality service at rates that represent good value to our customers, and we have made, and are continuing to make, substantial investments in our tracks and terminal facilities to compete for this business. *See id.* at 2-3.

III. CONCLUSION

The Board's decision to re-examine the commodity, boxcar, and intermodal exemptions is unwarranted and ill-advised. Congress' directive that the Board allow competitive markets to determine rail rate and service offerings remains the law, and the Board has no basis for questioning prior agency conclusions that exempt traffic is subject to pervasive competition. Union Pacific's ongoing capital spending plans depend on the stability of the current regulatory regime. We will not make the same investments in our network if increased regulation calls into question our ability to pursue returns. We urge the Board to recommit itself to the policies this agency has pursued at Congress' direction since the Staggers Act and terminate this proceeding.

Respectfully submitted,

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A handwritten signature in black ink, appearing to read "Michael L. Rosenthal", written over a horizontal line.

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Attorneys for Union Pacific Railroad Company

January 31, 2011

VERIFIED STATEMENT

OF

ERIC BUTLER

My name is Eric Butler. I am Vice President and General Manager - Industrial Products for Union Pacific Railroad Company ("Union Pacific"). I was appointed to my present position in April 2005. Since joining Union Pacific in 1986, I have held a variety of positions, including Vice President - Automotive, Vice President - Supply, Vice President - Planning & Analysis, and Director of Corporate Compensation.

As Vice President & General Manager - Industrial Products, I am responsible for managing Union Pacific's Industrial Products business unit. Union Pacific's Industrial Products business involves shipments of hundreds of commodities between thousands of shippers and receivers throughout North America. A very large portion – approximately 89% – of Union Pacific's Industrial Products business is exempt from regulation as a result of either a commodity exemption or the boxcar exemption or both, and exempt Industrial Products traffic comprised approximately 18% of exempt business that moved on Union Pacific in 2009. The great diversity of the exempt traffic that we handle makes it impractical to address all of our exempt Industrial Products traffic in detail. Accordingly, my statement focuses on several of the largest segments of the business; namely, lumber and wood products; paper products; steel and scrap; and crushed stone, sand, and gravel. However, Union Pacific's experience in the marketplace with these commodities is entirely consistent with our experience with the other exempt Industrial Products traffic: the traffic is subject to pervasive competition from trucks and other

railroads, and receivers often have the option of sourcing the products from a range of competing origins.

To win and retain this traffic, we must offer innovative products and deliver quality service at rates that represent good value to our customers. That requires investment in track, facilities, equipment, and technology. Over the past 5 years we have invested approximately \$14 billion to sustain and grow our network to serve Union Pacific customers. Improvements include double- and triple-tracking lines that carry intermodal, automotive, and manifest traffic, and improving terminals that are critical to our manifest service. Particularly important to manifest business, we have invested to improve terminal performance through yard renewal, expansion, and process improvement. In 2010 we invested \$70 million in yard renewal, and for 2011 we expect to invest at a similar level, approximately \$70 million.

Additionally, from 2008 through 2010, Union Pacific spent \$69 million in yard expansions. For example, we expanded our Columbus Sub terminal in Nebraska to handle growth in frac sand and steel traffic. We converted Columbus to a switching yard, extended three tracks, and added track to the Grand Island yard to further increase capacity. We also added tracks and improved switching and classification capacity at our Addis and Taft yards in Louisiana and our West Colton facility in Southern California. We are currently upgrading and expanding Davidson Yard, a hump yard in the Fort Worth area that handles manifest traffic from the North into Mexico, and from the Gulf Coast area to the West. We increased capacity for classification of cars, improved the efficiency of the humping operation, and improved ingress

and egress with two additional lines east of the facility.¹ We anticipate spending close to \$45 million for various yard expansions in 2011.

We are also increasing access to transload facilities by expanding our tracks and connecting to private facilities throughout the western United States. For example, we recently invested in new track and transload infrastructure at Shreveport, Louisiana, and supported increased transload capability at Miller, Texas. Additionally, Union Pacific has significantly increased its spending to build tracks on our property that connect with shippers' tracks, thus increasing rail service. In 2009, Union Pacific spent \$18 million and in 2010 Union Pacific spent \$15 million on these lead tracks.

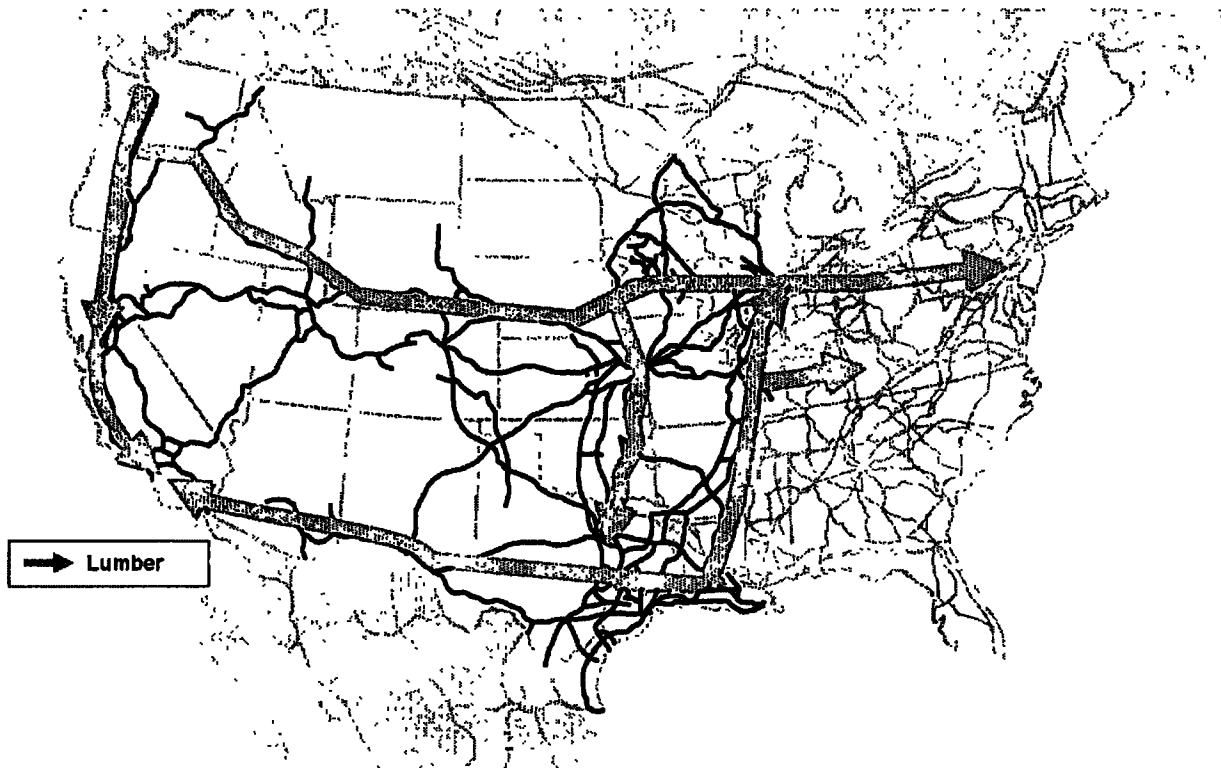
In addition, Union Pacific has made large investments to build new distribution centers to attract clients not previously served by rail. For example, we recently purchased property for a new distribution center in Eastern Wyoming. This new distribution center will provide a landing site for many of the products our Industrial Products group transports, including frac sand and steel pipe. These products can be shipped to the distribution center by rail, and then trucked to the final use sites as needed. Crude oil can also be trucked to the distribution center for rail transportation. This permits customers to use rail for their long hauls, and minimizes the distance for which truck must be utilized.

Union Pacific continues to invest heavily in new facilities, expanded tracks, and increased capacity to be able to compete effectively.

¹ In addition to the public funds used to build structures that were necessary to accommodate highway construction, we committed more than \$40 million of Union Pacific funds to expand capacity and improve service.

I. LUMBER AND WOOD PRODUCTS

Union Pacific's lumber and wood products traffic includes shipments of lumber, panel, plywood, and oriented strand board – products used in new home construction and repair and remodeling. Our shipments originate primarily in the Pacific Northwest and Canada, but also in the Southeast. Lumber and wood products are exempt commodities. In addition, panel, plywood, and oriented strand board move by boxcar, so shipments are subject to the boxcar exemption.



Union Pacific faces intense competition for movements of lumber and wood products. Trucks dominate the market and are competitive with rail over long distances. Rail competition is also intense. Shippers whose facilities are served exclusively by Union Pacific can readily transload their products to obtain service from BNSF Railway. Geographic competition is also a significant market factor: products from the Pacific Northwest and Western Canada must compete with products from the Southeast United States and from Eastern Canada.

All these factors combine to limit Union Pacific's participation in the marketplace and constrain the rates we can charge.

Truck Competition. Union Pacific faces intense competition from trucks. Trucks offer shippers advantages in terms of cycle time and speed that railroads cannot match. Shippers can use trucks to get their product to market the day after receiving an order – generally in less time than it would take a railroad to position an empty car for loading at a shipper's facility. In addition, trucks carry about 25% of what a single rail car carries, making truck more economical for smaller shipments, and providing shippers a competitive option for larger orders. In the marketplace for transporting lumber and wood products, trucks frequently offer service and pricing that we simply cannot match.

Trucks are a dominant force not only for shorter distance moves, but also for longer distance moves, where railroads are often thought to have an advantage. Trucks have captured a significant share of this traffic moving from the Pacific Northwest into Northern and Southern California. Last year, Union Pacific reduced our rates from the Pacific Northwest and Northern California to the Las Vegas area in an effort to recapture business that we had lost to truck. Union Pacific does have an advantage over trucks for certain long-distance movements, particularly movements from the Pacific Northwest to the Northeast, but as we discuss next, that business is subject to fierce competition from BNSF. Our rates are also constrained by geographic competition that could move by truck or other railroads from Eastern Canada or the Southeast to receivers in the Northeast.

Rail Competition. Even when Union Pacific has an advantage over trucks, we are subject to intense competition from other railroads, primarily BNSF. In the Pacific Northwest, BNSF has access to a substantial number of the rail-served lumber and wood products shippers.

Even when Union Pacific and BNSF are not competing head-to-head at a particular shipper's facility, we must provide rates that allow our customers to compete with shippers that BNSF serves. If our rates are too high, our customers will be forced to charge higher rates for their products. They will lose business to shippers who are paying lower rates to BNSF, and thus can afford to charge lower rates to their customers. Union Pacific, in turn, would lose that business as well.

Union Pacific's rates are also constrained by our customers' ability to transload their products to BNSF. The costs of transloading are low in relation to the delivered cost of a carload of lumber or wood products. This means that transloading to BNSF is a viable option for shippers that are solely served by Union Pacific. Shippers remind us of this option when they are not satisfied with our proposed rates or service terms. In fact, one of our largest customers recently told us that we had lost more than 150 railcars a month, in part because BNSF had quoted rates from an Oregon transload to destinations in Phoenix, Chicago, and Texas that were lower than our rates directly from the customer's facility.

Union Pacific is subject to the same types of competitive forces when dealing with customers that originate lumber and wood products in the Southeast. Union Pacific and BNSF have similar abilities to this traffic in the Southeast. We must also compete with BNSF for traffic that originates on eastern carriers and moves to the West.

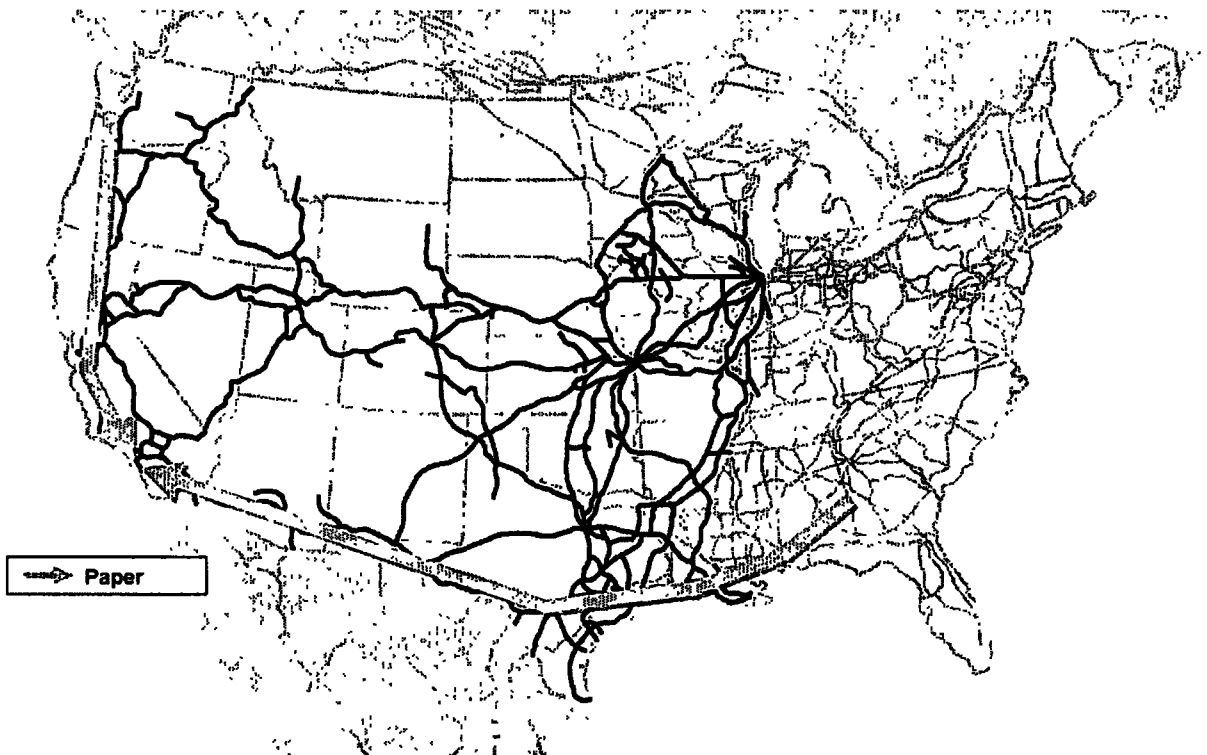
Geographic/Product Competition. Finally, Union Pacific's rates for lumber and wood products are constrained by receivers' ability to obtain these products from a variety of sources. This creates opportunities for trucks and other railroads to move the traffic instead. Our rates for long-haul movements of traffic originating in the Pacific Northwest are thus constrained

by rates for lumber and wood products that other carriers originate in the Southeast or Eastern Canada, and byproducts arriving in East Coast ports from Europe.

I understand that when the Interstate Commerce Commission was considering whether to exempt lumber and wood products, shippers testified that the substantial intermodal, intramodal, and geographic competition for their products made regulation unnecessary. In my experience, the marketplace remains extremely competitive. Union Pacific must compete with trucks and other rail carriers to maintain a foothold in the marketplace, and shippers have benefited and continue to benefit from this highly competitive environment.

II. PAPER PRODUCTS

Union Pacific's paper traffic includes many different specific products; the most significant is packaging paper. These large rolls of brown paper are used to make cardboard boxes. As shown in the map below, much of Union Pacific's paper traffic originates in the Southeast and the Pacific Northwest, for delivery to Southern California.



Approximately 50% of our paper traffic originates on eastern railroads. Most paper products are exempt commodities, and they all move either in boxcars or, as is increasingly the case, in intermodal service.

Union Pacific faces intense competition for movements of paper products. Trucks carry almost all of the short-haul business, and in recent years they have taken a larger and larger share of the traffic moving between 500 and 1,000 miles. For traffic still moving by rail, Union Pacific faces significant competition from BNSF. BNSF is equally well suited to receive paper traffic originating on eastern railroads. BNSF also has access either directly or via transloads to most of the traffic that Union Pacific can originate in the Pacific Northwest and Southeast. These factors combine to limit our participation in the paper business and constrain the rates we can charge.

Truck Competition. Trucks dominate the short-haul business, as they always have. They are also increasingly capturing traffic in lanes where railroads previously had an advantage. For example, traffic that once moved by boxcar from Washington and Oregon to Northern and Central California, and from Arkansas and Louisiana to Texas, is now moving by truck. Often, we simply cannot match the rates and service that our customers tell us they receive from trucks in these lanes.

Nonetheless, Union Pacific is continually trying to recapture business that was lost to truck and win new business that otherwise would move by truck. For example, we reduced rates for traffic moving from Toledo, Oregon, to Sacramento, California, to recapture 400 carloads. We also reduced rates to win 300 carloads from Mulford, Texas, to Fort Smith, Arkansas. And we have offered a rate reduction as part of an effort with Canadian National to

capture traffic that currently moves 430 miles by truck from Ferguson, Mississippi, to Galveston, Texas.

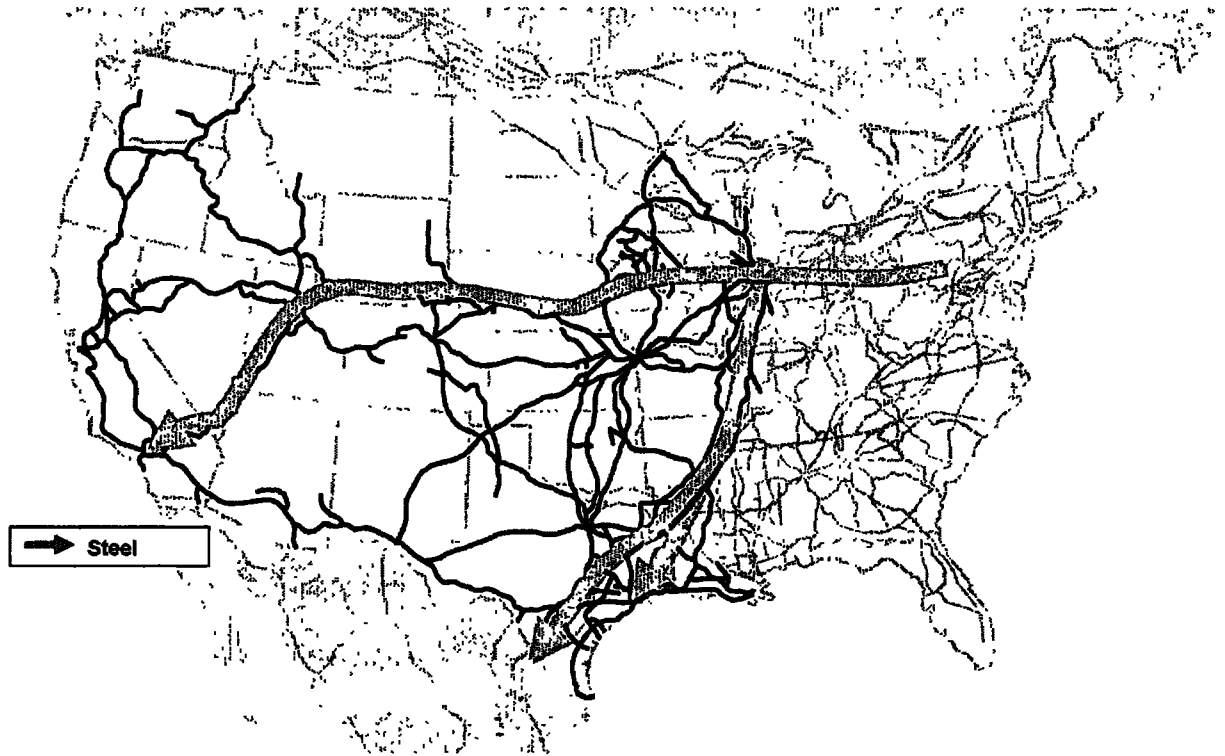
Rail Competition. Even in lanes where Union Pacific still has an advantage over trucks – primarily between the Southeast and California – shippers benefit from strong competition between Union Pacific and BNSF. BNSF competes with Union Pacific for most of the western paper destinations by accessing shipper facilities directly or interchanging traffic that originates on eastern carriers. In addition, Union Pacific and BNSF do not need direct access to shipper or receiver facilities to compete: paper products can readily be transloaded at one or even both ends of a movement. For example, after losing to truck some boxcar business from Oregon to Los Angeles, we then lost the remainder of the business to a BNSF transload.

In fact, as I mentioned above, a significant trend in the marketplace is the movement of paper products in intermodal containers. Union Pacific and BNSF move large volumes of containerized imports from California into the Southeast, which means that a large number of containers must be moved back to California. Union Pacific and BNSF offer low back-haul rates to shippers willing to transport goods in these containers, which would otherwise have to move empty. Paper shippers in the Southeast are increasingly shifting traffic away from boxcars and to those containers to take advantage of these low rates. Shippers have told us that when they are placing business up for bid, we are competing against rail, truck, and intermodal alternatives. All of this makes for an extremely competitive marketplace.

III. STEEL AND SCRAP STEEL

Union Pacific's steel and scrap steel business includes shipments of steel plate, sheet, and coil; shipments of manufactured steel products for the automotive, appliance, pipeline, and construction industries; and shipments of scrap to mini-mills that produce steel. As shown in the map below, most of Union Pacific's steel shipments originate on other carriers. Those

carriers serve integrated steel mills (mills that produce steel from iron ore, limestone, and coal using blast furnaces) in the Great Lakes region. They also serve finishing plants that take steel from the mills and turn it into auto parts, pipes, beams and structural steel, and other products.



Union Pacific's scrap shipments originate at scrap yards and move short distances to mini-mills, which typically produce steel by melting scrap in an electric arc furnace. Steel and scrap steel are exempt commodities.

Union Pacific faces intense truck, barge, rail and geographic competition for movements of steel and scrap steel. Trucks provide significant competition to rail. Steel and scrap movements often involve short hauls because mini-mills are typically located close to their customers and sources of scrap. Even longer distance movements of steel products often move by truck because (i) quantities are small, (ii) they would require a truck haul at one or both ends of any movement by rail, or (iii) they are time-sensitive. Moreover, for longer distance movements in larger quantities, especially movements that are not time-sensitive, shippers use

truck-barge combinations – especially when using rail transportation would also involve a truck haul at both ends of the movement. Even when rail can compete, Union Pacific must compete with BNSF, and often KCS. Finally, Union Pacific must be mindful of competition provided by imported steel, particularly steel moving to West Coast and Gulf Coast ports. As detailed below, these factors combine to limit our participation in the steel business and constrain the rates we can charge.

Truck Competition. Union Pacific faces intense competition from trucks for movements of steel and scrap steel. Many steel products move only a short distance from the mill. Lines of flatbed trucks leave each integrated steel mill every day. They carry plate, sheet, or coil steel to other facilities that will turn the steel into auto parts, appliances, pipes, construction material, and a wide variety of other products.

In addition, a substantial percentage of the steel products that we handle require transloading at one end, and sometimes at both ends, of the movement. This keeps truck competitive with rail even for long-distance movements. 100% of steel pipe used for pipeline construction must be hauled by truck at the destination: the end of the pipeline keeps changing, and you can get only so close by rail. And pipe that moves by rail is often transloaded at both origin and destination. The same holds true for pipe used in the oil and natural gas exploration, and for beams and structural steel used in the construction industry. Similarly, companies that manufacture farm implements, such as corn bins, using sheet and plate steel ultimately transport the vast majority of finished products using trucks.

Union Pacific frequently must provide truck-competitive rates and service to retain steel business: in many cases, we have lost steel business to truck. For example, we recently secured significant new business from a customer in Wyoming that had previously

shipped all of its pipe by truck. To convert this business to rail, Union Pacific located a transload facility in Denver, Colorado; orchestrated the trucking from Wyoming to Denver and transloading of the various lengths of pipe onto the appropriate rail cars; and located an offloading site in Placedo, Texas. At the same time, we had to ensure that our rate, and the customer's total supply-chain costs, were competitive with the direct truck moves the customer had used previously. While we were able to secure this business, often we simply cannot compete with truck. For example, Union Pacific was unsuccessful in bidding to deliver nearly 2000 carloads of import pipe for the Haynesville Extension pipeline in Louisiana because we could not match the service provided by truck.

As shown in the map above, substantial amount of the steel traffic that we handle moves from the Great Lakes region to Mexico for use in the auto industry. This traffic includes coil steel that is used to make hoods and fenders, and steel bars that are used to make frames, steering columns, and axels. This is extremely time-sensitive business: customers must receive these products on a strict schedule, which allows trucks to compete with rail even for these long-distance moves. For example, companies such as US Steel and Arcelor Mittal ship steel coils from the Great Lakes Region to automotive plants in Mexico. We offer lower rates than truck for these movements. Nevertheless, approximately half of the volume continues to move over the road because we cannot always meet the 3-day to 4-day transit time requirements.

Trucks also provide significant competition for steel traffic moving from mini-mills. Mini-mills are often located close to their customers, which makes truck an extremely competitive option. Many customers are not rail-served and would have to transload any rail-shipped product. Also, mini-mills frequently produce small batches of specialty steel, and the small shipment sizes often are better suited to the economics of truck transportation. Even for

the less common long hauls where we have rail access to the mill, such as a mini-mill in Norfolk, Nebraska, shipping to Illinois, Michigan, and Arizona, it is difficult to compete with trucks. We have not been able to successfully retain all of this business. We recently lost business to truck on outbound business from Norfolk to Milwaukee, Wisconsin. We also lost business from a Union Pacific-served mill in Plymouth, Utah, to Northern California and Denver, Colorado.

Trucks also dominate the business of moving scrap to mini-mills. As I explained above, mini-mills often were built to be near sources of scrap, and often buy from a particular circle of scrap dealers. As a result, most of the longest movements of scrap do not exceed 300 miles, which is well within the range in which trucks are highly competitive with rail. When Union Pacific handles scrap moving to a mini-mill, it is because we can use gondolas to move larger volumes more economically than trucks. However, if we tried to raise our rates above competitive levels, trucks would displace us in a heartbeat.

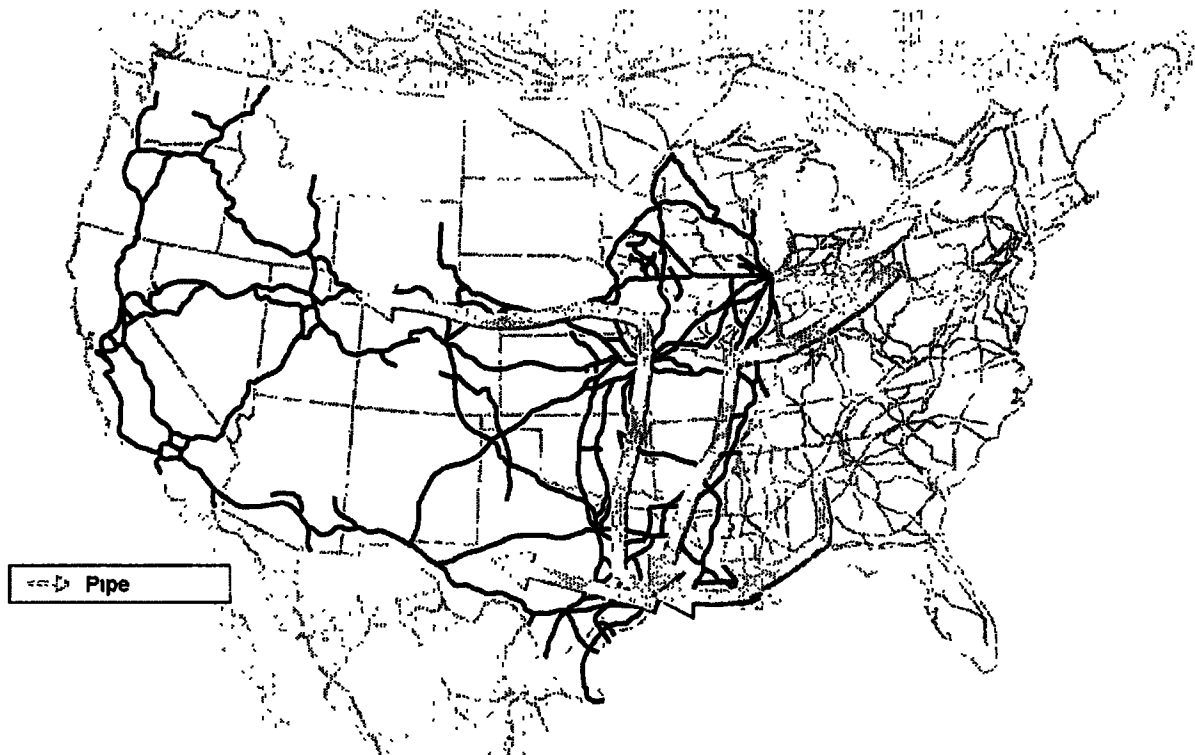
Barge/Truck Competition. Because many steel companies have access to barge service, a large share of the business that is *not* service-sensitive moves on the inland waterways through New Orleans and along the Gulf Coast to Brownsville, Texas. Once in Brownsville, the steel can be stored in a warehouse and trucked into Mexico as needed. This combination of barge-truck service is another competitive force. Recently, we reduced a rate to compete with barge for traffic moving from the St. Louis area to Brownsville.

Rail Competition. Union Pacific's steel business is also subject to intense competition from other railroads, particularly BNSF and KCS. Most of our steel shipments originate on other carriers, which means that BNSF could readily supplant Union Pacific for movements to points throughout the West. Because most steel products that we transport must

be transloaded at their final destination, neither railroad needs direct access to a shipper facility to compete for the business.

For example, Union Pacific is competing with BNSF to deliver pipe for construction of the Keystone Pipeline System, which will be used to transport crude oil from Canada through North Dakota, Nebraska, Kansas, Missouri, Oklahoma, and Texas. Our shipments will be delivered to points along the pipeline's route, but they will require delivery to the construction sites by truck. In order to capture this business, we will have to dedicate a fleet of over 500 specialized pipe flatcars, guarantee locomotive power, identify rail accessible points at obscure locations along the pipeline, and dedicate a team of logistics specialists to design and execute this complex delivery process.

Union Pacific and BNSF compete to transport steel products used in oil and natural gas exploration, such as drill pipe, tubing, and casings for drill rigs, into Texas, Colorado, Nebraska, Wyoming, Oklahoma, and Louisiana. The map below provides an overview of the movement of these products.



When we handle this business, we ship to a transload facility, and the products are delivered to the drilling site by truck.

Union Pacific and BNSF also compete head-to-head in many other areas as well. We recently bid and lost on a large movement of steel coil moving from Alabama and Illinois to California. We also lost to BNSF on a bid for pipe moving from Arkansas to the Dakotas.

Additionally, a significant portion of our steel business involves shipments to Mexico for use in the automobile industry. For these movements, we not only compete against trucks and a combination of barge-truck service, but also against KCS. KCS provides competitive service from its connections with other carriers to the border crossing at Laredo, and then into Mexico, where it serves many of the destinations through its affiliate, Kansas City Southern de Mexico.

Geographic/Product Competition. Finally, Union Pacific must be mindful of competition from imported steel products. Imports account for approximately 20% of finished steel mill products (*e.g.*, slabs, plate, sheet, and coils). This includes steel from China, South Korea, Japan, and European sources that flow into West Coast and Gulf ports and move to their ultimate destination on trucks. Moreover, many of the final products produced using steel, including appliances, oil field pipeline products, and windmill towers are also imported from overseas and typically move by truck within the United States.

In short, Union Pacific's steel business operates in an extremely competitive marketplace.

IV. CRUSHED STONE, SAND, AND GRAVEL

Union Pacific transports crushed stone, sand, and gravel, (or "aggregates") that are mixed with cement to make concrete for road construction projects. Compared with trucks, Union Pacific moves a very low volume of aggregates. Trucks offer competitive alternatives for all of the aggregates traffic that can be shipped by rail, often from quarries located closer to the construction site. Union Pacific also competes with BNSF for movements of aggregates, and with aggregates that move by water. As a result, the marketplace is highly competitive.

Truck Competition. Most aggregates move by truck because they are mined from quarries located all across the United States. Large stone quarry and sand and gravel operations exist near most population centers, so aggregates are readily available within trucking distance of construction projects. In addition, all of these products require a truck haul to a construction site, so transporting them partially by rail often adds extra handling costs.

Geographic Competition. In some instances, a particular quarry will use rail in an effort to penetrate a market that is too distant for that quarry to serve economically using truck. Aggregates have a high weight-to-value ratio, so transportation costs can be a significant portion

of the delivered price. As a result, in some cases, quarries are able to take advantage of the larger shipment sizes that railroads can provide. However, in those situations, the quarries and railroads are competing against other quarries located closer to the project site or using truck to deliver their aggregates. For example, Union Pacific transports aggregates from rail-served quarries at Stringtown, Oklahoma; and Perch Hill, TXI Stone Spur, and Chico, Texas to the Dallas area. At the same time, aggregates are trucked from Chico and Bridgeport, Texas, to the Dallas area.

Rail Competition. Quarries and railroads seeking to penetrate distant markets also compete against other quarry-railroad combination. Quarries that have rail service are generally served exclusively by one railroad, but there is often another quarry-railroad combination that can also compete for the business. As a result, when rail is a viable option, Union Pacific is not just competing against trucks, but also against BNSF. For example, Union Pacific ships aggregates to Paxton, Texas from Sudduth and Chico, Texas, and Drury Spur, Arkansas. BNSF can deliver aggregates to Paxton from Sudduth and Brownwood, Texas, and from Oklahoma. (Trucks can also deliver aggregates to Paxton from quarries in Mexia, Kosse, and Groesback, Texas.)

Our customers are interested in using our services to enter as many markets as possible. Union Pacific works with them to increase their business and our own as well, but it is often difficult to provide rates low enough to compete with trucks that are moving the same products over much shorter distances.

Houston provides an example of an aggregates market that is different than most others in the country, but it is still highly competitive. The Houston area requires hundreds of thousands of tons of aggregates each year for road construction projects. Crushed stone is

generally made from limestone, which is readily available in most parts of the country. Houston is different, however, because it is further away from limestone sources than most other population centers. As a result, substantial quantities of crushed stone must be moved into the Houston area.

One source of crushed stone for the Houston area is a group of quarries located near Dallas. Union Pacific serves several Dallas-area quarries, but so does BNSF. Both railroads move substantial volumes of crushed stone from these quarries to destination yards in the Houston area. Often, the destination yards are served by just one railroad, but the other railroad typically serves different yards that are located just a few miles away. Moreover, both railroads compete with trucks, because the movements are well within trucking range and because the rail movements all require a truck haul to the project site. Railroads have only a slight advantage over trucks in their ability to transport larger volumes; it takes four trucks to move as much crushed stone as rail car. Finally, Union Pacific and BNSF both compete with aggregates that move into Houston ports from Mexico and then move by truck to construction sites.

Water Competition. Union Pacific also competes with aggregates moving by water. Aggregates are sometimes shipped from Mexico to the United States in bulk cargo vessels. For example, Union Pacific historically carried over one million tons of aggregate per year into Beaumont, Texas. Over the last several years, our volume has decreased dramatically, primarily due to aggressive water competition. One particularly strong competitor, Vulcan Materials, is part-owner of a quarry in the Mexican Yucatan, and it also owns several bulk cargo vessels. We believe that Vulcan can import rock through Gulf ports at rates significantly lower than Union Pacific's.

In sum, our experience is that the marketplace for aggregates is extremely competitive. Although we move high volumes as measured in tons, trucks dominate the business. Our rates are constrained by competition from trucks, other railroads, and aggregates that arrive by water and move by truck.

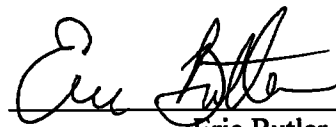
V. CONCLUSION

All of the exempt commodities in the Industrial Products business unit experience significant competition, which constrains the rates that Union Pacific can charge and forces Union Pacific to continuously search for ways to improve its services. Trucks enjoy significant advantages in competing for Industrial Products traffic. Trucks dominate the short-haul market, which comprises the majority of the market for some Industrial Products, such as aggregates and many steel products. Even for longer distances, the complexities of transloading often make it difficult for rail to compete with truck. Even where railroads have some advantage over trucks, Union Pacific faces competition from other railroads, such as BNSF and KCS. Geographic competition provides a further restraint on Union Pacific's rates. To attract and retain this business, Union Pacific must offer high-quality service at competitive rates.

VERIFICATION

I declare under penalty of perjury that the foregoing statement is true and correct to the best of my knowledge, belief, and information. Further, I certify that I am qualified and authorized to file this statement.

Executed this 28 day of January, 2011.



Eric Butler

VERIFIED STATEMENT

OF

JOHN KAISER

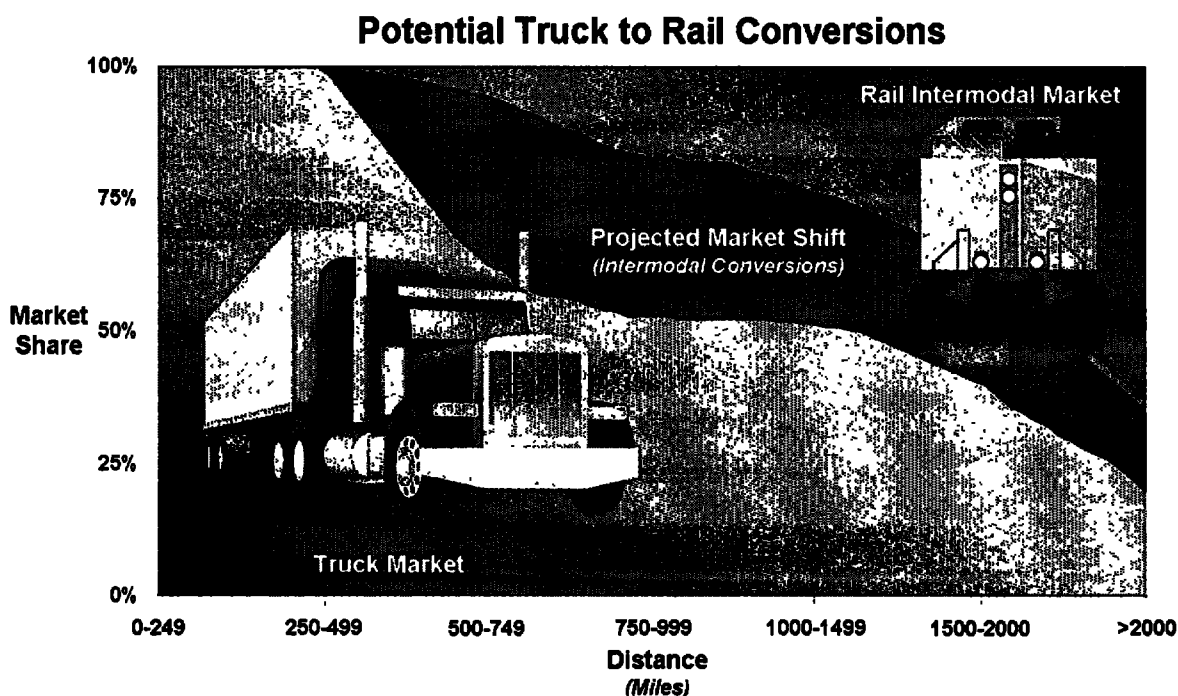
My name is John Kaiser and since 2003 I have been Vice President and General Manager - Intermodal for Union Pacific Railroad Company ("Union Pacific"). Before joining Union Pacific in 2002 as Vice President and General Manager - Automotive, I held management and executive positions at Westinghouse Electric and Emerson Electric.

In my current position, I am responsible for all commercial aspects of Union Pacific's \$3.3 billion intermodal business. Intermodal transportation is the movement of freight in containers or trailers by multiple modes of transportation. Union Pacific's intermodal business is composed of two distinct segments: international and domestic. International freight consists of goods moving by rail in containers that are designed for ocean transit as part of the import or export of goods to or from the United States. Domestic freight consists of goods moving by rail in containers and truck trailers that originate and terminate within North America. The domestic business itself has two segments: the "single driver truck" segment, which requires service comparable to that offered by a single-driver, long-haul truck, and the less than truckload ("LTL") and parcel segment, which is the most highly service-sensitive intermodal segment.

Intermodal traffic is exempt because it moves in containers or in trailers on flatcars that move by truck or sea vessel before and after the rail segment. That defining characteristic makes all rail intermodal traffic susceptible to diversion to competing carriers.

All segments of Union Pacific's intermodal business are highly competitive. We compete head-to-head with BNSF Railway for all of our international business and most of our domestic business. We also compete with other railroads, especially Canadian National Railway and Canadian Pacific Railway, for business that moves between western ports and some of the largest markets in the United States. Norfolk Southern and CSX also compete with Union Pacific, because many shipments that arrive at ports on the West coast could also move on all water routings to eastern and southeastern U.S. ports. In addition, we compete with trucks for intermodal business, especially domestic business. In fact, trucks dominate the domestic business, and our success in capturing and retaining domestic business depends on our ability to offer service that provides performance comparable to trucks. As the chart below illustrates, the Department of Transportation projects that, even with a substantial increase in rail's market share, trucks will continue to capture the majority of intermodal moves, particularly those of 1,000 miles or less. In Part I of my Statement I provide further detail regarding intermodal competition.

National Rail Plan's Projected Modal Shift



Because of the nature of the marketplace in which we operate, we must focus not only on offering rates that allow us to compete with other rail carriers and with trucks, but also on providing service that approaches the transit times and reliability that are available from trucks. Shippers have many options, and customers can easily switch carriers, and often do. As a result, Union Pacific has invested substantial resources to improve our rail network, our intermodal facilities, and our service quality. In Part II of my Statement, I describe in more detail our investments and other efforts to retain our existing business and attract new business to rail intermodal.

I. INTENSE COMPETITION FROM OTHER RAILROADS AND TRUCKS NECESSITATES FLEXIBILITY AND ADAPTABILITY.

Rail and truck competition has produced a marketplace characterized by frequent rate bidding on the part of shippers to ensure that they have the most competitive

rates and service. Being responsive in this context requires us to be able to rapidly respond to a fluctuating marketplace and to engage in continuing efforts to improve our services in order to retain and attract business. Our intermodal customers are sophisticated entities that are fully aware of their many options. They utilize sophisticated analytical tools that enable them to compare all of the competitive options for their shipments, water, rail, and truck, to secure the best deal possible in terms of rates and service. Union Pacific faces slightly different competitive challenges in each segment of our business, but all of our intermodal business is subject to intense competition, and our customers have benefited from that competition.

In my role at Union Pacific, I frequently interact directly with the senior executives of major intermodal shippers, such as ocean carriers, intermodal marketing companies (“IMC”s), motor carriers (“MC”s), and the Beneficial Cargo Owners (“BCO”) themselves. As a result of this contact, I have become very aware of the dynamic nature of shipper supply chains. For example, a single large shipper, such as a big box retailer, may have multiple supply chains for different products and geographic areas; each of which they frequently evaluate and re-evaluate to determine that they have the most cost effective solution in place. In this context, it is critically important that the railroad have the ability to adapt to the changing requirements of intermodal shippers – domestic and international. To do so requires expert knowledge, the appropriate technology, and the flexibility to respond to changing market conditions and shipper requirements in real time. I am devoting an increasing amount of our resources to ensuring that Union Pacific is a leader in this area by investing in new technologies and new services like those that support our new door-to-door product, Streamline.

A. Competition For International Intermodal Business

Union Pacific's international intermodal freight principally moves in 20- or 40-foot shipping containers designed for ocean transit. Our international intermodal services are typically purchased by global ocean carriers. The companies that ship goods from overseas, such as Walmart, Best Buy, Toys "R" Us, and Nike, typically enter into contracts with a number of ocean carriers, who manage the coordination and integration of the ocean, rail, and truck shipments required to meet their transportation supply chain needs. These ocean carriers have several competitive options to Union Pacific service.

1. Railroad Competition

Union Pacific faces intense competition for international intermodal business from other railroads. BNSF Railway serves all of the major West Coast ports that we serve and has its own intermodal facilities at almost all of the inland points that we serve. BNSF also offers intermodal service to some inland points, such as Minneapolis, that Union Pacific does not serve. Ocean carriers often structure their business so that Union Pacific and BNSF must bid on multi-year contracts for three different bundles of freight: freight moving between California and Texas, the South, and the Southeast; freight moving between California, the Midwest, and Northeast; and freight moving between the Pacific Northwest and the Midwest and Northeast. The results of the bidding varies; we may not win any business, or we may win one, two or all three bundles. However, the winning rail carrier often changes from bidding cycle to bidding cycle, as we and BNSF adjust our rate and service offerings to compete when the business again comes up for bid.

Moreover, Union Pacific and BNSF do not provide the only options for ocean carriers seeking rail competition. Canadian National offers competitive service

between Prince Rupert and Vancouver, Canada, and Chicago, which is by far the largest market for intermodal freight, as well as between Prince Rupert and Memphis and the Northeast. Canadian Pacific Railway provides international intermodal service between Vancouver and Chicago, as well as between Vancouver and Minneapolis and Detroit. Yet another railroad, Kansas City Southern de Mexico, also provides some service from Lazaro Cardenas in western Mexico into Texas, in conjunction with Kansas City Southern Railway.

The nature and extent of rail competition that we face is reflected not only in the rates that we propose when business is put up for bid, but also in our investment decisions. For example, as Union Pacific's capacity in Chicago tightened, infrastructure investments were needed to support our ability to grow and compete effectively in that market. Our solution was to build a \$370 million dollar intermodal facility in Joliet, Illinois, pictured below. By making this significant investment, we have been able to win new business and offer improved service to the customers that will use this new facility. Union Pacific also recently entered into a medium-term lease at the Port of Tacoma to increase our capacity in the Pacific Northwest. More generally, the significant investments in Union Pacific's intermodal franchise that I discuss in more detail in Part II demonstrate beyond doubt the highly competitive nature of the marketplace.

JOLIET INTERMODAL TERMINAL (GLOBAL 4)



2. Truck Competition

Union Pacific also faces competition for international intermodal business from trucks. This truck competition takes several forms.

First, trucks compete with railroads for movements of containers to inland points. For some extremely short movements, railroads cannot possibly compete with trucks, because any rail movement will necessarily include a final delivery by truck. However, rail becomes competitive with truck at moderately long transit distances, starting at approximately 500 miles. In general, trucks are predominantly used for containers traveling as far as 1,000 miles from a port. For example, we compete with trucks for movements of containers from Los Angeles to Salt Lake City (700 miles) and Denver (1,020 miles); from Oakland to Salt Lake City (730 miles) and Denver (1,262

miles); from Los Angeles to El Paso (800 miles); and in the Houston to El Paso (744 miles) and Memphis (520 miles) markets.

Second, a significant percentage of containerized goods that arrive at West Coast ports do not move to their final destinations in their original shipping containers. Instead, trucks move the containers to a local warehouse, where the goods are unloaded and stored, awaiting a future move by truck to their final destination as domestic traffic. This is especially true of goods moving through ports in the Los Angeles area. When setting rates for international intermodal traffic, we must be mindful that our customers can and do exercise this competitive option.

Third, a significant percentage of containerized goods from Asia are not routed through a western port when they will move to a final destination in the East. For about 30% of traffic from across the Pacific, ocean carriers use an “all water route” and transport the freight through the Panama Canal to an East Coast port. From the port, the traffic moves to its final destination either by truck or on CSX or NS, who have both invested millions of dollars in new intermodal corridors and facilities to capture more of this business over eastern and southeastern ports. Norfolk Southern’s Heartland Corridor and CSX’s National Gateway Corridor, for example, facilitate competition from all water service to East Coast ports serving Eastern and Midwestern points that Union Pacific also serves from the West Coast.

Every year from 2002 through 2009, West Coast ports have lost market share to East Coast ports. In the late 1990s, only about 16% of the ocean containers from Asia traveled by sea to the East Coast. By 2009, the figure had increased to 30%. The planned expansion of the Panama Canal makes it unlikely that this trend will reverse

itself. When an ocean carrier decides to travel to the East Coast by sea, Union Pacific loses a potential cross-country haul. When setting our rates and service schedules, we must be mindful that our customers can and do use “all water routes” as an alternative.

B. Competition For Domestic Intermodal Business

Union Pacific’s domestic intermodal freight moves in containers and truck trailers that are principally 53-feet in length. The “single driver truck” segment of our business requires services that are comparable to those offered by a single-driver long-haul truck, which typically travels an average of 600 miles per day. The LTL and parcel segment of our business requires services that are comparable to those offered by truck carriers that typically use a team or relay system of drivers and can cover 800 to 1,000 miles in a day. As in the case of our international business, our customers are not the owners of the goods we transport, or BCOs, but rather the intermodal marketing companies and motor carriers that are hired by the BCOs to handle transportation logistics. And, as in the case of our international business, these companies have no shortage of competitive options to Union Pacific service.

1. Railroad Competition

BNSF competes for almost all of the domestic traffic that we can handle. Because all domestic intermodal moves require a truck haul between the railroad’s intermodal ramp and the actual origin and destination, neither we nor BNSF must serve exactly the same locations to compete for business. We do not even need to have intermodal facilities located in the same city. When BNSF does not serve a particular location where we have an intermodal facility, it can provide service through a “paper ramp” – an arrangement that involves a movement by rail to a nearby facility and a truck haul to the destination. For example, BNSF does not have an intermodal ramp in San

Antonio, Texas, but it has competed for and won business moving to San Antonio by providing service through a ramp in Houston. Similarly, we do not have an intermodal ramp in Phoenix, but we have competed for and won intermodal business by offering a “paper ramp” in Phoenix that we serve through Tucson.

2. Truck Competition

In addition to BNSF’s ability to serve almost all of our customers, Union Pacific’s main competition for most domestic intermodal business is truck. Trucks are a significant competitive presence in every lane in which we operate. Even for the Los Angeles to Chicago lane, where Union Pacific and BNSF together move approximately 40% of “single driver truck” business, trucks still move about 60% of the traffic. They would move even more if we were not offering competitive service at a competitive price.

Trucks dominate the domestic trailer and container business. We estimate that trucks transport approximately 80% of the domestic intermodal traffic that we could potentially handle – that is, traffic that originates and terminates near enough to one of our intermodal ramps to make rail service an option. BNSF transports about 10% of this traffic and we move the remaining 10%.

Trucks have a service advantage over rail in many cases, because every rail movement requires a lift and a truck haul at both ends. Railroads can only win business by offering rates that are competitive with those offered by trucks, and by offering service that approaches the level provided by trucks in terms of transit time and consistency. This means attracting sufficient densities that we can achieve unit train economies and set rates accordingly, and developing service plans that allow us to come close to truck transit times and consistency of service.

Service is extremely important in the domestic business. Transportation contracts typically include automatic fallback options – if a carrier fails to perform to the contractual service standard for a specified period of time, the customers have the option to shift to another carrier, which they frequently exercise. In order to sell our services to an intermodal marketing company or motor carrier, we must convince them that we can offer a package of rates and consistently provide service that compares favorably to trucks.

The role played by trucks is even more significant in the less-than-truckload and parcel business. Union Pacific transports relatively small volume traffic for LTL and parcel carriers such as YRC Worldwide, ABF Freight, and UPS. These carriers typically use a team or relay system of drivers so that their trucks can move continuously. To sell our services to these carriers, we must be able to average 800 to 1,000 miles per day. This requirement presents significant operational challenges and has limited the number of lanes in which we can offer LTL and parcel service. Moreover, most LTL carriers are bound by union contracts that strictly limit the volume of traffic they may move using railroads, which limits our business opportunities.

II. UNION PACIFIC'S COMPETITION FOR INTERMODAL TRAFFIC HAS BENEFITED SHIPPERS

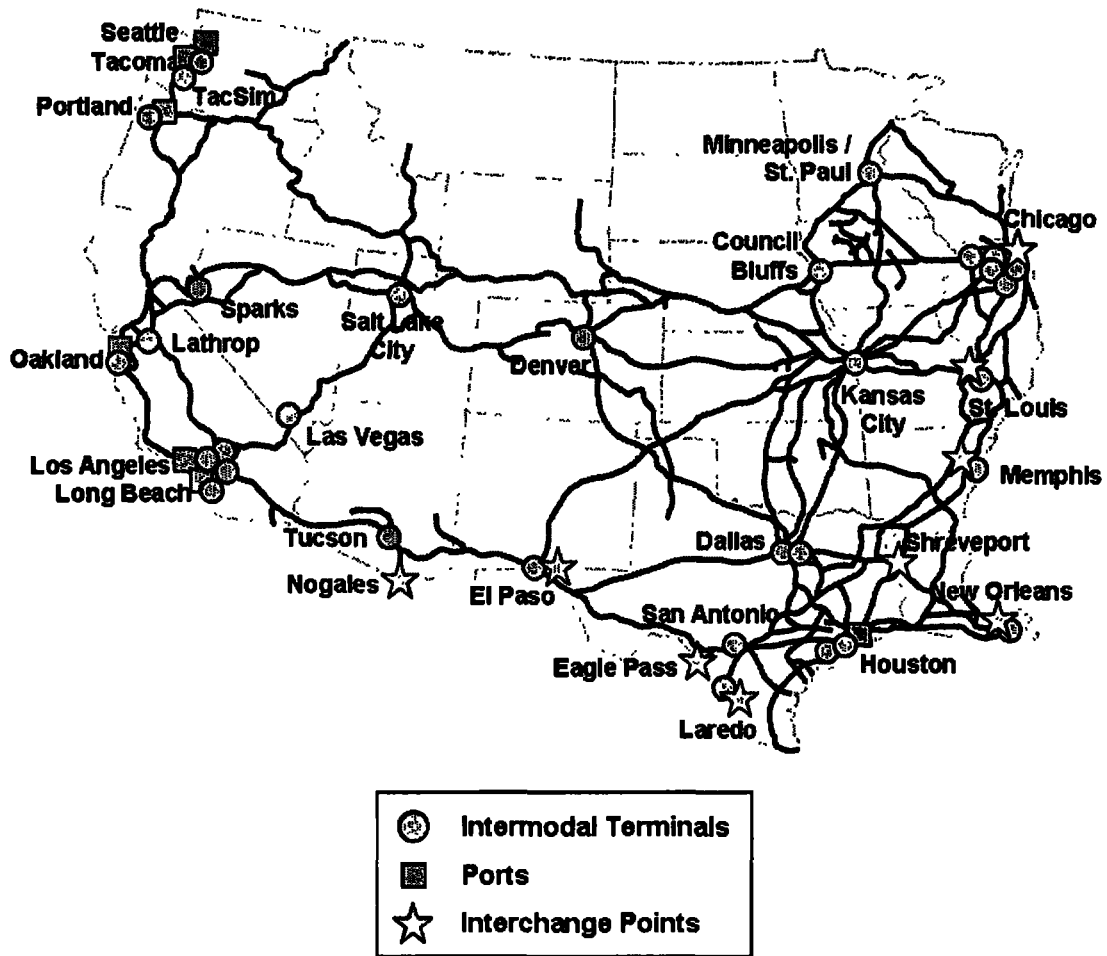
The competitive nature of the intermodal business forces Union Pacific to continue to invest in improving our service. Union Pacific has invested and continues to invest significant capital resources in improvements to our rail network and the facilities we use to serve intermodal traffic. We have increased our capacity and improved our schedules and reliability. Our customers have benefited from these improvements, as well as from the competitive pricing environment.

A. Union Pacific Invests Significant Capital Resources In Improvements To Our Intermodal Facilities And Infrastructure

In such a competitive market, Union Pacific has been able to attract and retain intermodal business by investing in improvements to its facilities and infrastructure. In the last five years, Union Pacific invested \$1.4 billion in increasing its “line of road” capacity in corridors that serve the intermodal market. We have completed double-tracking the Sunset Route between El Paso and Tucson and have resumed extending the double-track segments between Tucson and Los Angeles. We improved or created new service in 86 lanes and created many new lanes to carry intermodal freight, and expanded track capacity on many of our other routes. In particular, Union Pacific has invested in expanding track capacity to capitalize on fast-growing markets in northern and southern California, as well as across the Sunbelt and in Texas and Chicago.

Union Pacific invested \$1.1 billion between 2000 and 2010 in new and expanded intermodal terminal capacity. This includes construction of a new intermodal terminal at Joliet, Illinois, to serve the Chicago market. Chicago is the largest intermodal market in North America. Union Pacific also constructed a new international intermodal terminal in Dallas, and opened new ramps in San Antonio, Salt Lake City, and Tacoma. These new facilities will help Union Pacific compete for international traffic, highway traffic from Texas and Mexico, and domestic warehouse volume from the Pacific Northwest.

The map below shows Union Pacific's expansive network of intermodal lanes, terminals, ports, and interchange facilities.



Union Pacific recognizes that we must continue to invest in improving our infrastructure and facilities to compete in the intermodal market. To compete against other railroads, and to win business away from trucks and ocean carriers, Union Pacific must provide fast, reliable service. This requires continued investment in our tracks, facilities, and containers.

B. Union Pacific Invests Significant Capital Resources In Innovations To Our Business And Improvements To Our Customer Service

Union Pacific has also responded to competitive pressures by investing in innovating our business and improving our services to better meet the needs of our customers. Recently, Union Pacific has expanded its staff dedicated to interacting directly with the ultimate consumers of our services, the Beneficial Cargo Owners. Union Pacific is doing so in support of its sales intermediaries, who continue to retail our services to the BCOs, with the objective of bringing information about Union Pacific's improved intermodal service, expanded container capacity and long-term commitment to the intermodal market to the BCOs. Concerns about timeliness, speed, reliability, and customer service originate with companies like Wal-Mart, Procter & Gamble, and Kohl's that hire the intermodal marketing companies and motor carriers, and it is important for Union Pacific to have a complete understanding of their requirements and concerns. By speaking directly with these companies, Union Pacific learns more about the customers' concerns and areas in which we can improve our service offerings or develop new market-responsive products.

In March 2007, Union Pacific launched Streamline, a new door-to-door service for our domestic intermediary customers, to drive more efficient use of our containers and commercial drayage between our ramps and pick-up or delivery points. In so doing, Union Pacific contributes to strengthening all of the intermediaries that use our service – from the smallest to the largest - and enables new companies, like truck brokers and motor carriers, who do not have specialized intermodal operating capabilities, to use Union Pacific without costly investments in technology, staff, and equipment.

As a result of concerns voiced by customers (BCOs, IMCs and MCs), Union Pacific has taken a number of steps to improve our customer service. We have significantly improved schedules, reliability, and capacity by investing resources in our infrastructure. We have completed double-tracking over 61% of the Sunset Route, expanded capacity on other routes, increased container capacity (expanding double-stacking), and built new facilities. We published a set of ambitious schedules, and then worked hard to improve our performance to meet those schedules, often cutting multiple days off the previous schedule. One route's performance improved from eight days to five. In 2006, Union Pacific began investing in containers for UPS freight. By 2009, 48% of UPS freight on Union Pacific moved in containers. Union Pacific's investment in containers allowed UPS to move its shipments faster and more efficiently.

These improvements have dramatically impacted our intermodal service. As a result, Union Pacific has captured more volume in lanes where these improvements have been realized. This clear indication of customer sensitivity to service issues compels Union Pacific to continue investing in these types of improvements.

III. CONCLUSION

Intermodal customers have many options for transporting their containers and trailers. Union Pacific competes with other western railroads, as well as Canadian and eastern railroads, for traffic arriving from Asia. Ocean carriers carry almost one-third of the traffic to the East Coast rather than transporting it by rail over land. The most significant competition, however, comes from the trucking industry. Trucks dominate the intermodal business, capturing 80% of domestic intermodal traffic, more than half of international intermodal traffic, and all but a small percentage of LTL and parcel traffic. With so many options for transporting their freight, intermodal customers have

significant bargaining power. They can easily switch from one railroad to another, or from rail to truck, and back again.


The crowded field of competitors and the market power of customers compels Union Pacific to invest, innovate, and improve our service offerings. Shipper requirements change as they adjust their supply chains to varying market conditions, and we must be sufficiently agile and innovative to respond to those changes just to retain the business we currently handle. We have risen to the challenge and have captured significant market share in some areas by investing heavily in our infrastructure and facilities. In other areas, we have a long way to go before we can be a serious competitor.

Union Pacific is fighting hard to win and retain domestic intermodal business. Trains require one-third the fuel of a comparable truck move and produce 70% fewer environmental emissions per ton-mile than trucks. A train can carry the equivalent of 300 trucks in a single movement. Shipping intermodal freight by train eases highway congestion, decreases fuel consumption, and significantly cuts back on environmental emissions. We believe it is in the public interest for more intermodal freight to move by train rather than by truck. Nevertheless, the speed, reliability and reach of the trucking industry make it difficult for us to capture a significant portion of this business from trucks.

VERIFICATION

I declare under penalty of perjury that the foregoing statement is true and correct to the best of my knowledge, belief, and information. Further, I certify that I am qualified and authorized to file this statement.

Executed this 28 day of January, 2011.


John Kaiser

VERIFIED STATEMENT

OF

JULIE KREHBIEL

My name is Julie Krehbiel. I am Vice President and General Manager - Automotive for Union Pacific Railroad Company ("Union Pacific"). I have been employed by Union Pacific since 1988. I began my career with Union Pacific as a management trainee in Marketing and Sales, and I have held various positions in Union Pacific's Automotive, Chemicals, and Industrial Products business groups, and in Union Pacific's Market Development and Sales Center. I was promoted to my present position in 2005.

As Vice President and General Manager - Automotive, I am responsible for all commercial aspects of Union Pacific's Automotive business, which encompasses shipments of both finished vehicles and automotive parts and materials. I am also responsible for Insight Network Logistics, a Union Pacific subsidiary that helps auto makers and vehicle remarketers to optimize logistics performance, and ShipCarsNow, a subsidiary of Insight Network Logistics that provides the used car industry with multimodal auto transport services.

Finished vehicles and parts are subject to commodity exemptions, and parts are also exempt because they move in boxcar or intermodal service. Finished vehicles account for approximately 75% of our Automotive business, with the balance consisting of automotive parts. Union Pacific invests heavily in its facilities, processes and technology, providing specialized services at attractive rates, to capture a portion of this highly competitive traffic from trucks and other railroads.

I. OVERVIEW: VIGOROUS COMPETITION FOR THIS TRAFFIC HAS RESULTED IN HIGHLY COMPETITIVE RATES, SIGNIFICANT INVESTMENTS, AND IMPROVED SERVICE.

Union Pacific's automotive customers include many large companies that wield significant bargaining power, and they have a variety of alternatives when deciding how to ship their vehicles and auto parts. We must compete with other railroads, as well as with other modes of transportation. Trucks provide a competitive alternative to rail for a substantial share of finished vehicles, and they handle the vast majority of parts traffic. If we do not provide the rates and the level of service that our automotive customers require, they can readily shift their business to our competitors. I discuss the state of competition in the marketplace in more detail in Part II of my Statement.

To win and retain automotive business, Union Pacific must do more than offer competitive rates – we must satisfy our customers' service demands. Our customers require fast transit times, consistent performance to schedule, and a high standard of care for their products. We are consistently investing in new facilities and developing new processes and technologies to improve service quality and make it even more competitive. Union Pacific has invested approximately \$350 million since 2005 to improve service to the automotive industry. We have reduced transit times for finished vehicles from an average of 5.1 days to an average of 4.4 days, resulting in millions of dollars in savings for our customers each year. We have improved on-time delivery, and we are providing 99.7% damage-free delivery. In Part III of my Statement, I describe in more detail how Union Pacific has responded to the competitive pressures of the automotive marketplace by investing and innovating to win customers and retain their business.

II. UNION PACIFIC FACES SIGNIFICANT COMPETITION FOR THE AUTOMOTIVE BUSINESS FROM OTHER RAILROADS, TRUCKS, AND ALTERNATIVE ROUTES USING SEA VESSELS.

The broad range of transportation alternatives has produced a marketplace characterized by competitive rates and continuing efforts by rail carriers to invest and innovate in order to attract and retain business. Automotive industry customers are sophisticated corporations that are fully aware of their many options and pit railroads against each other, and against trucks, to obtain the best deal possible in terms of rates and service.

A. Rail Competition

Union Pacific and BNSF compete head-to-head for automotive business across the West, and we compete with BNSF and KCS for business moving to and from Mexico.

Union Pacific and BNSF compete vigorously for movements of finished vehicles moving to or through the western United States. Union Pacific and BNSF have comparable access to West Coast ports, including ports in the Seattle/Tacoma, Los Angeles/Long Beach, Oakland, and Portland areas, where finished vehicles arrive from overseas. Both railroads can then move those vehicles to destinations throughout the West, using their networks of auto ramps, or to connections with eastern railroads. Union Pacific and BNSF also have comparable access to most North American auto manufacturers, either by serving their plants directly or by connecting with the railroads that access plants in the East, the Upper Midwest, Canada, or Mexico.

Automobile manufacturers have established contracting and bidding practices that encourage vigorous competition between Union Pacific and BNSF. Several of the largest auto manufacturers award their rail traffic in multi-year contracts on an all-

or-nothing basis. Even manufacturers that do not award traffic on an all-or-nothing basis generally seek bids for substantial segments of their business and place that business into long-term contracts. The result is that each bidding opportunity involves the potential for gaining or losing a significant volume of traffic, which keeps the competitive pressure extremely high. For example, Union Pacific has lost various segments of business to BNSF and KCS recently, including one customer sending vehicles from Houston to various destinations in the West, and another sending finished vehicles to the Pacific Northwest.

Union Pacific also competes vigorously with BNSF and KCS to move auto parts, although trucks carry most auto parts traffic in the current marketplace. For railroads, one of the most significant lanes is from original equipment manufacturers (“OEMs”) in the Upper Midwest to auto production facilities in Mexico. KCS, with its connection to Kansas City Southern de Mexico, provides particularly strong competition for this traffic. Union Pacific also competes against BNSF for intermodal movements of “tier” business, or parts moving up the production chain to OEMs.

B. Truck Competition

Trucks capture significant portions of the automotive transportation business. Over short distances, railroads cannot match the combination of service and rates offered by trucks. However, trucks also transport finished vehicles and parts over relatively long distances. Union Pacific’s efforts to increase our automotive business often involve attempts to offer service that is more like truck service; for example, by improving the speed and reliability of our schedules and by developing processes that allow customers to ship smaller volumes, while still offering the attractive rates typically associated with rail service.

Finished Vehicles. Trucks can take finished vehicles directly from a port or a plant to a dealer. Rail movements of finished vehicles to dealers all require de-ramping and delivery by truck to the dealer facility, which adds time and cost to the process. The additional handling also increases the risk of damage. As a result, truck movements are competitive with rail even over relatively long distances. Union Pacific's experience is that there are several relatively long-distance lanes that rail has not been able to penetrate, such as Los Angeles to Salt Lake City (743 miles); Portland to Denver (1369 miles); and Smyrna, Tennessee, and Canton, Mississippi, to Texas and New Mexico (589-1336 miles).

Over time, Union Pacific has have been able to convert traffic from truck to rail, or at least give ourselves a chance win and retain certain business, by expanding our network of auto ramps and by improving our service to counter the perceived advantages of using trucks. This process has been underway for some time, and it is one reason why our share of the automotive business has increased. One example is a successful bid for Mitsubishi traffic moving from Port Hueneme, California, into Texas, and working with Norfolk Southern to capture traffic moving from Brunswick, Georgia, into Texas.

Even where rail has made inroads, however, lanes will shift back and forth between rail and truck as part of the competitive process. We may lose a lane to truck if traffic volumes decline, or if a trucking company presents a bid containing lower rates or offering better service than we can provide because of the location of our ramp. We may win that same lane at the next opportunity by offering attractive rates or improving our service plan. One example is an OEM for whom we ship finished vehicles from

Brunswick, Georgia to Westfield, Texas. We lost this business in one round of bidding and won it back in another; the OEM is willing and able to shift between modal alternatives based on their overall needs and our ability to provide a competitive service package.

Auto Parts. Truck, not rail, is the dominant mode of transportation in the parts business. Trucks transport approximately 85% of automotive parts. Competition for parts business largely turns on a carrier's ability to provide the required level of service. At all levels of the supply chain – whether they are moving from tier suppliers to OEMs, or from OEMs to vehicle production plants – parts must be delivered quickly to hold down inventory costs, and they must be delivered consistently or production will grind to a halt. Trucks are often perceived as having both speed and reliability advantages over rail, especially because almost all rail shipments of parts require additional trucking between a plant and a rail facility.

Where Union Pacific has been able to make inroads into the auto parts business, it is because we have offered extremely high levels of service at attractive rates. For example, Union Pacific has employees stationed at certain auto production facilities where we ship parts to coordinate service and respond to customer concerns. Even so, customers can readily shift from rail to truck, and they choose whichever mode provides the best combination of service quality and price.

C. Short-Range Sea Competition

Union Pacific also must compete against service combinations involving short-range sea movements of finished vehicles from Mexico to the East Coast. For example, one OEM in the Mexico City area ships approximately half its finished vehicles to destinations in the United States by rail through the Laredo gateway. It ships the other

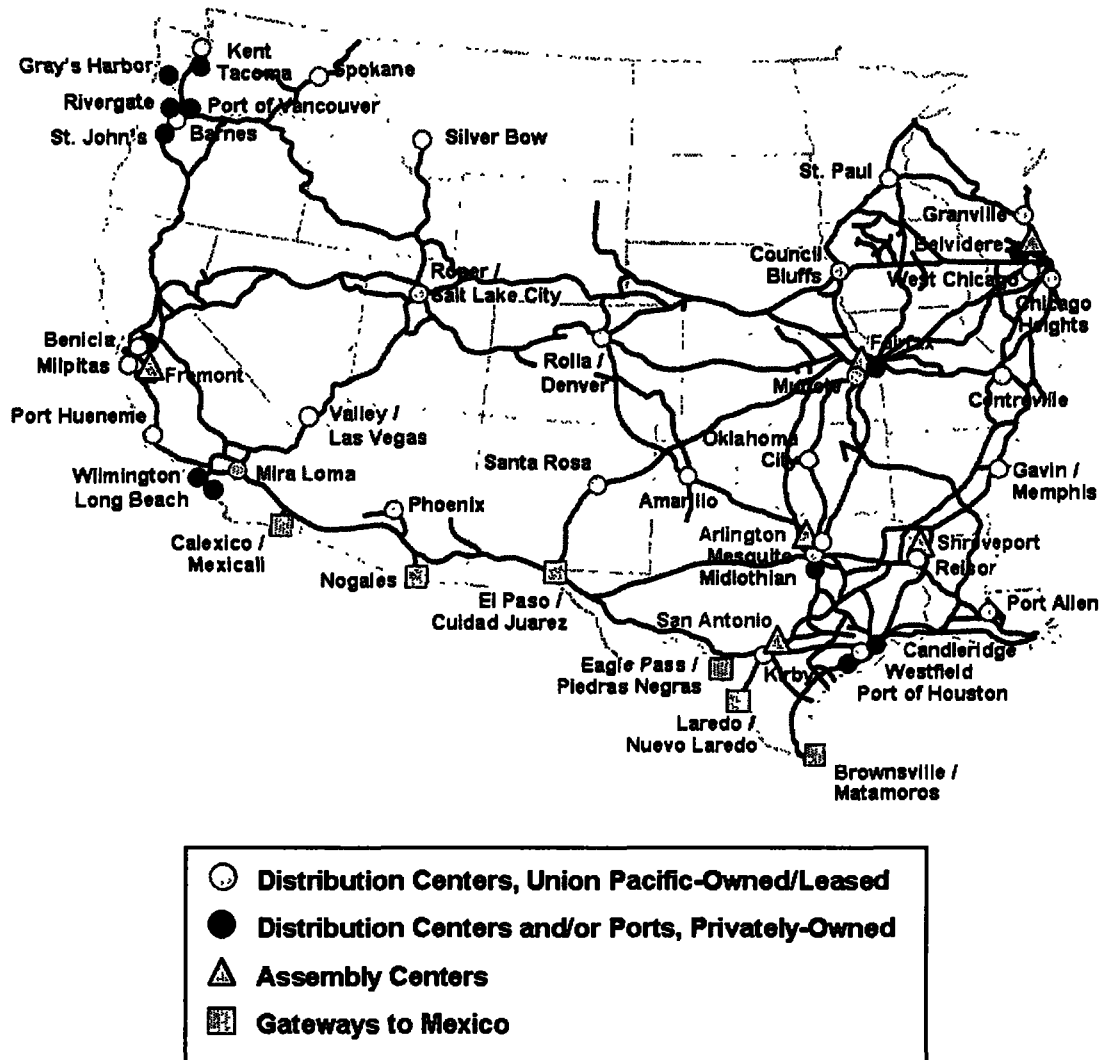
half through East Coast ports using short-range sea vessels. From the East Coast, the finished vehicles are transported by truck to their final destination. Other vehicle manufacturers in Mexico could potentially take advantage of the short-range sea option, which expands their competitive alternatives.

III. THIS COMPETITIVE MARKET HAS BENEFITED SHIPPERS OF FINISHED VEHICLES AND AUTOMOTIVE PARTS.

Union Pacific is compelled by the competitive nature of the automotive business to invest in improving the service we offer to our customers. We have invested and continue to invest significant resources to improve our physical facilities, technology, business processes, and overall service. Our customers have enjoyed the benefits of these investments, improvements, and innovations, as well as the attractive rates attributable to the strong competition in the marketplace.

A. Union Pacific Has Invested Significant Resources To Improve The Facilities, Railcars, And Other Infrastructure Used To Serve Our Automotive Business.

In the past 12 years, we have invested approximately \$688 million in our automotive business. As illustrated on the map below, we have expanded our network of distribution centers to meet the service and pricing needs of our customers.



This capital investment is on-going. Last year, Union Pacific invested \$7 million in improvements to facilities serving the automotive business, and an additional \$65 million to acquire and improve a facility in Fremont, California.

Union Pacific also invests heavily in our fleet, including autoracks used to transport finished vehicles and boxcars used to transport automotive parts. In 2010, Union Pacific invested approximately \$8.4 million in our tri-level autoracks and our boxcars. This level of investment is not unusual; over the past 12 years, we have made an average annual investment of approximately \$33 million to improve and expand our autorack and boxcar fleets.

Union Pacific has also been a leader in designing new equipment to serve the automotive business. Recently, Union Pacific worked closely with Norfolk Southern Railway to develop a novel Unilevel car to accommodate oversized vehicles, such as duty trucks, tractors, and mobile homes. And just last year Union Pacific's own engineers began designing a new AutoFlex car. This innovative design allows users to convert autoracks from a trilevel to a bilevel, and back again, depending on the size of the automobiles being transported. The new autoracks also include a redesigned door that is more secure, to prevent vandalism of the vehicles. Union Pacific expects to begin building these ground-breaking new AutoFlex cars soon, and we intend to make the design available to other rail carriers, so that they can build their own AutoFlex cars.

This continued high level of investment by Union Pacific is necessitated by the heavy competition we face from other railroads, trucks, and sea vessels. Union Pacific has demonstrated our commitment to competing in this business by investing heavily in innovations and improvements to meet the needs of our customers. We must continue to invest, year after year, to retain these customers and to win new business.

B. Union Pacific Invests Significant Time And Resources To Improve Our Service.

Spurred by the high level of competition for automotive business, Union Pacific works hard to understand our customers' concerns. We have succeeded in increasing customer satisfaction by tailoring our services to the automobile industry's needs. To add value to our customers, Union Pacific has developed software, processes, and even new business models. For example, Union Pacific developed VINFormationTM tracking system, LogicNet software, co-loading processes, and a new business model that makes it feasible to move used cars individually by train. Each of these innovations has filled a need within the automotive industry and has allowed Union Pacific to attract and retain automotive business.

VINFormation. The VINFormation tracking system helps automobile manufacturers track and locate individual vehicles traveling by train. This proprietary software, developed by Union Pacific, associates each Vehicle Identification Number with the railcar in which the specified vehicle is traveling. The VIN is scanned into the VINFormation tracking system when the vehicle is received by Union Pacific, when it is loaded onto a railcar, and when it leaves the railcar. Customers can use the system to map, query, locate, and track all of their vehicles quickly and easily. A customer who needs to provide a specific car to a client by a certain date can determine exactly where the vehicle is at any given time. In most cases, this provides peace of mind for customers concerned about late deliveries; in the few occasions where a delivery is running late, this system provides early notice of any delays. In a business where even minor delays translate into significant financial impacts, the VINFormation tracking system provides a huge advantage.

LogicNet. Union Pacific purchased LogicNet software to address the request of our automotive customers for more information about their transportation options. Customers found it difficult to determine which providers were located close to various facilities that have the capability of providing service to their desired destinations. Union Pacific uses the LogicNet software to highlight all of the customer's locations overlaid with the transportation network. This software shows the customer all of its options for transporting vehicles by rail and truck. LogicNet determines which ramp locations and end locations will save customers money by making their transportation route more efficient. An example of the LogicNet analysis and output is attached to this Statement as Exhibit 1.

Co-loading. In 2008, Union Pacific implemented co-loading among its automotive customers. Co-loading permits different customers to share space in the same railcar, with each customer paying per automobile. This allows customers to transport smaller shipments of cars more rapidly and less expensively, rather than waiting until a railcar is full, or shipping it half-empty. Co-loading also permits customers to ship vehicles to destinations that otherwise would not have sufficient volume to make transportation by rail economical.

Implementing this dramatic change to railroad shipping practices required Union Pacific to revise 244 unique business processes. We spent close to three years designing an effective co-loading model. Once we developed a working model, Union Pacific worked with Norfolk Southern to make co-loading available to automotive customers in the eastern region as well. This innovation was driven by the need to make our rail service more closely match truck service in order to retain and grow business.

ShipCarsNow. The ShipCarsNow program is another example of Union Pacific's innovative efforts to attract automotive business. Union Pacific launched this program in 2006, through its Insight Network Logistics subsidiary, to offer transportation services to the used car market. This market had not previously used railroads, because used cars are generally shipped in very small volumes thought to be more suitable to trucks than trains. To attract some of this market share from the truck industry, Union Pacific has committed \$10 million to design software that allows customers to arrange their moves online. Beginning in 2009, customers can move their used cars in any volume, including a single vehicle, through the ShipCarsNow website. Union Pacific hopes that this new business model will attract customers that otherwise would not think of rail as a viable option. Over the next two years, we plan to incorporate enhanced functionalities in the ShipCarsNow e-store to enable further penetration into this truck-dominated market.

Union Pacific continues to seek out openings to differentiate its service offerings to automotive customers from its competitors. Through innovative technology and software, flexible business solutions, and creativity, Union Pacific has successfully demonstrated our commitment to these customers. Nevertheless, we recognize that we must continue to invest in improving customer service, or risk losing business to our competitors.

IV. CONCLUSION

Automotive customers have many options for transporting finished vehicles and automotive parts. Union Pacific competes head-to-head with BNSF and KCS for rail traffic in the western United States and to and from Mexico. Trucks provide a fast, flexible alternative to railroads. In addition, sea vessels can carry products from

Mexico to the East Coast, providing yet another alternative to long-distance rail transportation.

Automotive customers have significant bargaining power. They compare prices, capacity, and service offerings, and they choose the transportation alternative that provides the best combination of service and cost. They can switch from rail to truck and back again, and they do so frequently. In this environment, customers can and do negotiate extremely competitive deals.

Faced with stiff competition and sophisticated customers, we compete not only through highly competitive rates, but also by investing and innovating to improve our service offerings. In some segments of the business and geographic regions, we compete primarily with other railroads. In other segments and regions, trucks dominate the business. We continue to compete, but trucks likely will dominate the business in these segments and regions for the foreseeable future.

VERIFICATION

I declare under penalty of perjury that the foregoing statement is true and correct to the best of my knowledge, belief, and information. Further, I certify that I am qualified and authorized to file this statement.

Executed this 27th day of January, 2011.

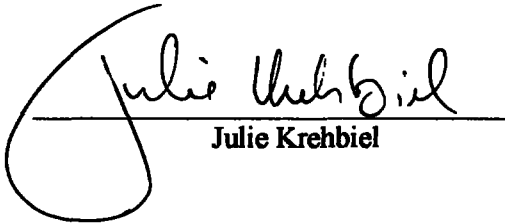

Julie Krehbiel

EXHIBIT 1

